

Schapp, Stephen

From: Prideaux, Jon
Sent: Friday, May 14, 1999 8:02 AM
To: Schapp, Stephen
Subject: RE: Visa USA announcement.

**GOVERNMENT
DEPOSITION
EXHIBIT
1444**

Stephen,

My first reaction upon seeing this was unprintable... and so was my second. Here's my more considered opinion:

This sort of service is a complete distraction from the real requirement without much to commend it in terms of benefits as far as I can see.

- It does not - contrary to the reassuring blurb in the Q+As - take us any where near SET. In fact it is in complete contradiction to it by promoting an alternative form of merchant authentication.
- Neither does it get us anywhere as far as guaranteeing transactions. And so won't have any real impact on the levels of chargebacks that are plaguing this business at the moment.
- From a practical perspective the link with Verisign obviously does something, but is this an exclusive arrangement ? Where does this leave other certificate providers: CertCo, GlobeSet etc.
- Also from the competitive perspective it's not clear to me how this service could actually benefit Visa or whether it will simply be a generic.

Politically it couldn't have come at a worse time. It will certainly undermine confidence in SET - perhaps fatally. Time after time we are asked by Vendors and Members and Merchants what the attitude of the payment association to SET is. This will be seen as a complete loss of faith in it. I am also astonished that this can just pop up seemingly out of the blue - and crucially at this moment when Visa USA must be aware of the sensitivity of the other regions to SET. This move will not only undermine confidence in SET it will also undermine Member's confidence in Visa and its ability to act as a global organisation.

As you said in your comments on a different subject - perhaps Visa is becoming ungovernable

You ask me to consider whether Visa should be developing a mutual authentication service along similar lines. I would say no. Definitely and categorically. My reasons would be as follows:

- As you say, it would be a re-invention of SET, and thus undermine confidence in it.
- More importantly I don't see that a simple mutual authentication would actually ever be enough to provide a guarantee for a transaction. In the real world a transaction has to (i) *evidence* that it originated from a card (ii) *evidence* that it was approved by the cardholder (iii) *evidence* that it was authorised if above floor limit (iv) *evidence* that it was processed accurately and in a timely fashion. A certificate scheme such as this would not be capable of meeting these criteria, without having extra things bolted on. (e.g. will the cardholder certificate be linked to a particular account ? What lasting evidence is available to the Issuer that their certificate was used ? What evidence is there that the cardholder approved the transaction ? What evidence is there that the transaction was for the processed amount ? or on the processed date etc. The point is that SET is a complete scheme that does all these things over and above the authentication, it provides evidence that it was done, it is linked to a specific account, it has check values to ensure that transaction details aren't altered etc. These are some of the things that make it more difficult to implement, but they are precisely the same things that actually provide the guarantee, which is the only true value of SET

One final point / creative thought:

I have had a criticism of SET for some time on the merchant side and it may be that adapting this Visa USA approach may overcome this criticism. Whereas it is obvious on the cardholder side that the cardholder has to have one certificate (or card based cryptogram, if he's using chip) for each relationship that he has, this is by no means as clear on the Merchant side. The function of the cardholder cert (or chip card) is to assert the account and issuer to be used in the payment. The basic purpose of the Merchant certificate is different. It seems to me that it is not the function of the merchant certificate to prove a financial relationship between the bank and the merchant - that, in a sense, is self evident. If the transaction gets processed a relationship with a bank exists, if not, not. I would suggest that the purpose of the merchant certificate is to assert that "here is a good merchant, a safe to shop place, vetted by a bank". Since most Acquirers are dual it has always struck me as stupid to require the merchant to have to have two certificates - each of which probably expires at different times and costs a different amount - simply to assert the same thing to both MasterCard and Visa cardholders

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Schapp, Stephen

So.... could one think about updating SET to incorporate this same kind of Acquirer issued merchant certs.. One cert per Acquirer / merchant relationship...??

Jon

—Original Message—

From: Schapp, Stephen
Sent: 13 May 1999 17:29
To: Prideaux, Jon
Subject: Visa USA announcement.
Importance: High

Jon - I need your help on this. We were unable to dissuade Visa USA from doing this deal. Would appreciate your confidential personal view as to whether we should consider developing a global SSL-based mutual authentication capability instead of - or in addition to - SET. We have refused to do this to date because we feel that we will end up having to define something that will look very much like SET all over again - with little benefit.

Thanks!

Stephen

<< File: VISA-VERISIGN Q&A 5-12-99 FINAL.doc >> << File: Visa Verisign Talk Points 5-12-99 FINAL.doc >> << File: Verisign release.doc >>

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